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SUBJECT: WILL LABOR SHORTAGES HURT TAIWAN'S TECH SECTOR?

11. (SBU) SUMMARY. In the latest attempt to forestall a predicted shortage of skilled labor that could disproportionately affect Taiwan's high technology industries, the Executive Yuan recently approved measures to attract more foreign professionals to Taiwan. The measures provide tax and non-tax incentives applicable to approximately 1,000 expatriate managers and high-tech workers. The measures, however, are deemed insufficient by industry professionals and do not seem to be coordinated with existing programs to attract foreign workers. As the tech sector grows and Taiwan's population ages, skilled labor shortages may become more acute, but official efforts to alleviate potential shortfalls do not yet seem able to address the problem. End Summary.

ATTRACTING FOREIGN TALENT - THE LATEST ATTEMPT

2.(SBU) The American and European Chambers of Commerce have long called on Taiwan authorities to allow greater access to Taiwan's labor market for highly skilled foreign workers. In response, Taiwan's Council for Economic Planning and Development (CEPD) drafted new measures to attract foreign professionals, including small tax breaks and streamlined administrative procedures for foreigners who come to Taiwan under existing government recruiting programs. The measures also provide financial aid to Taipei's American and European schools. The measures were approved by the Executive Yuan in late June.

13. (U) The new measures appear to be part of an ongoing trend to attract foreign talent and support growth in Taiwan's high-tech sector. The past few years have seen a series of small steps such as the National Science Council's expanded recruiting missions and the Ministry of Economic Affairs' on-line job search tools, all of which are aimed at alleviating a widely-perceived labor shortage.

TAIWAN'S LABOR SHORTAGE - IS THE SKY FALLING?

14. (U) Employment surveys from the past two years show that, compared with other Asian economies such as Hong Kong and Singapore, Taiwan has more firms reporting difficulty hiring qualified engineering and technical staff. According to forecasts by the Executive Yuan's Science and Technology Advisory Group (STAG), Taiwan will continue to see large labor shortages, particularly in the semiconductor industry, for at least the next two years, if not longer. Executives at Taiwan Semiconductor Manufacturing Company (TSMC), Taiwan's largest semiconductor foundry, claim to have no difficulty finding qualified staff, but say many of their competitors do. According to CEPD data, growth in the semiconductor industry could require 7,000 more electrical

engineers than are now available.

15. (U) In contrast, changes in the composition of Taiwan's technology sector have caused labor surpluses in some industries. The telecommunications sector has seen declining growth, and biotechnology has not yet lived up to earlier estimates of growth, with the result that both industries have excess labor supply. Even if it were possible to redistribute these surplus workers to other industries, STAG still estimates Taiwan already faces a net shortage of about 10,000 high-tech workers.

SYSTEMIC AND DEMOGRAPHIC CHANGES COMPOUND THE PROBLEM

16. (SBU) In a meeting with econoffs, TSMC Director of Investor Relations Elizabeth Sun and CFO Lora Ho suggested Taiwan's skilled labor shortage is at least partly caused by the poor quality of the higher education system, especially the lack of advanced research institutions. This concern has been heard in Taiwan for several years. This year's National Science Council White Paper on Science and Technology, for example, states that Taiwan's university system has expanded too quickly and has diluted the quality of professors and staff. Increased availability of domestic university positions has kept more Taiwan students at home, resulting in fewer students with overseas education and work experience, attributes which high technology firms want. In addition, the expansion of Taiwan's higher education system has not generated significant increases in the number of master's degree graduates in technical fields, precisely where the shortages are most severe.

17. (U) A decline in Taiwan students' educational

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qualifications, combined with Taiwan's falling birth rates, suggests that the shortage of qualified professional workers cannot be resolved through the educational system alone. Taiwan will need to attract foreign professionals if it hopes to maintain growth in the high technology sector. Whether the newly-approved measures can significantly improve the situation is unclear.

BUILD IT, BUT WILL THEY COME?

18. (SBU) Some industry executives and expatriate professionals in Taiwan predict the new measures will have little effect. The American and European Chamber of Commerce have called for the CEPD to expand measures to encompass all foreign professionals, as the number of new professionals that may be attracted to Taiwan by the measures as written is insignificant. The measures' CEPD drafters admitted to us that they have no target for the ultimate impact of the measures, which suggests this move may be just the latest in a series of uncoordinated steps to resolve the high-tech labor problem. A recent editorial in the English-language Taipei Times emphasized the ineffectiveness of Taiwan's efforts to attract foreigners compared to the programs of Hong Kong and Singapore, and called for more concrete, large-scale efforts.

19. (U) In recent meetings with econoffs, administrators of Taiwan's Hsinchu Science Park said the most important factor in attracting foreign professionals is a welcoming environment, but language and cultural difference make Taiwan a difficult adjustment for many foreigners. Ironically, mainland Chinese, who would not face many of these obstacles, are subject to employment restrictions in Taiwan. Chinese professionals are only permitted to transfer to Taiwan within a multinational company if they have been working there for more than one year.

110. (SBU) HB Chen, president of AU Optronics, told econoffs that although his firm has moved significant operations to China to take advantage of cost savings through supply chain integration, Taiwan continues to be the center for its design

and front-end processes. For this part of the business, he told us, Taiwan's labor quality is superior, while China's talent pool is still developing. TSMC executives told us that they see China as having great human resources potential, but do not see value in moving operations there. TSMC CFO Lora Ho said that labor is a small part of TSMC's

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costs as a semiconductor foundry, and due to the organizational advantages, her company would benefit most from skilled engineers who could integrate with their existing operations. In other words, the quality of mainland labor is seen as sufficient for manufacturing, but insufficient for design and advanced processes. Regardless of Taiwan's restrictions on cross-Strait business, relocation to China is not the solution for all of Taiwan's labor demands.

COMMENT

¶11. (SBU) Estimates of the extent of Taiwan's skilled labor vary immensely, but there is a growing consensus that there is a shortage. Continuing growth in the global market for semiconductor and display technology, sectors where Taiwan companies hold leading positions, is undeniable. If Taiwan, ranked 6th in the world for information technology competitiveness by the Economist Intelligence Unit, seeks to maintain the competitive edge its companies derive from their experience and organization, it will need many new engineering professionals. But with all of the challenges Taiwan faces in attracting foreign talent, it is unclear whether Taiwan's tech companies will get the qualified professionals they need to fuel future growth. End Comment.

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